

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMVOTI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umvoti Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets, cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages xx to xx.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury as set out in the accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of financial statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by Umvoti Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

Emphasis of matter

11. Without qualifying my opinion, I draw attention to the following matter:

Amendments to the applicable basis of accounting

12. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 522 of 2007* issued in *Government Gazette No. 30013 of 29 June 2007*.

OTHER MATTERS

13. Without qualifying my opinion, I draw attention to the following matters that relate to my responsibility in the audit of the financial statements:

Non compliance with applicable legislation

Municipal Finance Management Act

14. A fraud prevention plan and a formal risk management policy or process has not been established and incorporated into the municipality's system to assess, manage and control risk on a continuous basis contrary to section 62(1)(c) of the MFMA.
15. The municipality has incurred capital expenditure of R143 000 which was not appropriated in the capital budget in terms of section 19(1) of the MFMA.
16. The municipality has not prepared or tabled an annual report for 2006/07 as required by section 121(1) of the MFMA.

Municipal Systems Act, 2000

17. Councillors have not declared their interest as required by Code of Conduct for councillors, contained in schedule 1, sections 5, 6, 7 and 8 of the MSA.

Division of Revenue Act

18. Signed returns on conditional grant spending has not been submitted to the relevant treasury in terms of Section 12(1)(b), 12(4) of DoRA and section 71(5) of the MFMA.

Matters of governance

19. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matters of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.		✓
• The audit committee operates in accordance with approved, written terms of reference.		✓
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		✓
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.		✓
• The internal audit function operates in terms of an approved internal audit plan.		✓
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA	✓	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report		✓
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
• No significant difficulties were experienced during the audit	✓	

concerning delays or the unavailability of expected information and/or the unavailability of senior management.		
• The prior year's external audit recommendations have been substantially implemented.	✓	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	✓	
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007 detailing progress towards full compliance with GRAP.	✓	
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		✓

Unaudited supplementary schedules

20. The municipality provided supplementary information in the Annexure E1 and E2 to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

21. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

22. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

23. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

24. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

26. During the year under review the municipality did not have a performance management system in place as required by section 38 of the MSA.

27. The integrated development plan of Umvoti Municipality did not include the key performance indicators and the performance targets as required by section 26(i) of the MSA.

Performance information not received in time

28. The financial statements submitted for auditing did not include a report on the performance information of the municipality, as required by *General Notice 616* as published in *Government Gazette No. 31057 dated 15 May 2008*; read with section 46 of the MSA.

APPRECIATION

29. The assistance rendered by the staff of the Umvoti Municipality during the audit is sincerely appreciated.

Pietermaritzburg

28 November 2008



A U D I T O R - G E N E R A L